

01 DEPARTMENT OF AGRICULTURE, FOOD AND RURAL RESOURCES

015 MAINE MILK COMMISSION

Chapter 27: RETAIL MARGINS

SUMMARY: This rule establishes minimum retail margins for milk sold in Maine.

I. BACKGROUND AND STATUTORY FRAMEWORK

Pursuant to 7 M.R.S.A. § 2954 the Maine Milk Commission (Commission) is vested with the power to establish and change, after investigation and public hearing, the minimum wholesale and retail prices to be paid to producers, dealers and stores for milk received, purchased, stored, manufactured, processed, distributed or otherwise handled within the State of Maine. Further, section 2954 states that the minimum retail prices established for payment by consumers must be based on the minimum wholesale price that retail stores must pay to dealers plus a rate of return to the retail store (retail margin) deemed just and reasonable by the Commission.

Retail stores are required by law to sell fluid milk at a price no lower than the minimum set by the Commission; they may, however, sell at a price higher than the minimum. The Commission issues a monthly Schedule of Minimum Retail Prices, which is based on the current price dealers (milk processors) must pay producers for their milk (which can fluctuate from month to month) plus the current dealer margin and the current retail margin.

This rule establishes new minimum retail margins for milk sold in retail stores. The retail margin is the minimum amount that a retail store must add to the cost of a container of milk, purchased from a processor, in order to cover the store's direct costs and indirect costs (miscellaneous and overhead) associated with making the container available for final sale to the consumer. In 2013, the Commission entered into a contractual agreement with the Herbein & Co. to conduct an investigation to determine whether minimum retail margins for milk currently in effect should be changed. This rule is the result of that investigation, and is further based on testimony received during the public hearing conducted as a part of the rule making process under the Administrative Procedure Act.

Table 1 shows for comparison purposes the retail margins for the previous five versions of this rule established in 1990, 1994, 1999, 2002 and 2007 as well as the margins proposed in this rule.

Table 1. Minimum Retail Margins Established by the Maine Milk Commission

CONTAINER TYPE	1990	1994	1999	2002	2007
Gallon	\$0.200	\$0.185	\$0.185	\$0.1967	\$0.3619
Half Gallon	\$0.130	\$0.137	\$0.105	\$0.1107	\$0.1609
Quart	\$0.107	\$0.128	\$0.075	\$0.0929	\$0.0905
10 Quart	-----	\$0.352	\$0.352*	\$0.352*	\$0.4660*
3-Quart	\$0.167	\$0.225	\$0.225*	\$0.225*	\$0.2980*

* Containers no longer sold, but Commission is required to set a minimum retail price. Prices for 1999 and 2002 are carried forward from 1994 Retail Margin Order. In 2007, prices reflect inflation adjusted prices from 1994 for finished farm products.

II. 2012 MILK RETAILING COST STUDY

The Commission contracted with Herbein & Co. to conduct the retail margin study. This study used actual data collected from 10 retail locations throughout Maine.

Milk retailing costs were collected for ten retail stores, including six grocery retail stores (Hannaford Bar Harbor, Hannaford Portland, Hannaford Skowhegan, Shaw's Wiscasset, Shaw's Augusta, Shaw's Portland), two large general retail stores (Wal-Mart Brewer and Wal-Mart Augusta), and two convenience store chain locations (Cumberland Farms Skowhegan and Cumberland Farms Portland). Each store was sent a nine page questionnaire that solicited information on the retailing costs of milk.

Cost Categories

This study used the Kirland method to determine the retail margin rates.. Information from the store surveys were combined with other data to develop the rates to arrive at the final per unit cost for each milk container. More specifically, the final per unit retailing cost for each type of milk container was derived by adding together all of the costs, both direct and indirect.

Direct costs are defined as those costs explicitly attributable to receipt, movement, and storage of a fluid milk product. This cost category includes labor, equipment, capital, and electrical expenses. Labor costs include time spent ordering and receiving milk, stocking the coolers, and fringe benefits. Equipment costs include the amortized per unit cost for coolers. Capital costs include land and building expenses, apportioned to the milk coolers and display space based upon the square footage occupied. Lastly, electricity costs to run the coolers are included, which is allocated to each type of container based on the space it occupies in the cooler.

Indirect costs are defined as accrued costs that are not explicitly attributable to the direct handling of one specific product. Indirect costs are typically allocated across all product categories. Similar to direct costs, indirect costs allocated to milk include labor, capital, equipment, and electrical expenses. This category also includes store-level miscellaneous

and overhead costs as well as corporate and division costs borne by the store. Labor costs cover cashiers, baggers, and front-end management. Equipment costs include amortized replacement costs for scanners, lanes, and registers. Capital and electrical costs include space and electricity expenses incurred by the store services area. Miscellaneous and overhead expenses account for costs incurred at the store-level such as uncollected (“bad”) checks, telephone fees, water, training, etc. Lastly, corporate and division costs, a second type of miscellaneous and overhead expense, consist largely of operation costs and are typically apportioned to each store based on the individual store’s share of total corporate and division sales.

These indirect store costs are allocated to each type of milk container based on the proportion of floor space that they occupy relative to the total direct sales floor space of the store. Thus, if gallons of white milk occupy 1% of the store’s total floor space they would be assigned 1% of the indirect costs.

Table 2. Retailing Costs by Type of Milk Container

CONTAINER TYPE		TOTAL COSTS
Gallon		\$0.3588
Half Gallon		\$0.1944
Quart		\$0.1122

III. LOWEST PRACTICABLE PRICE

To achieve the lowest practicable price at which milk can be retailed the Commission establishes the following retail margins:

Gallon	\$0.3588
Half Gallon	\$0.1944
Quart	\$0.1122
10 Quart	\$0.4660*
3 Quart	\$0.2980*

* Containers no longer sold, but Commission is required to set a minimum retail price. Prices for 1999 and 2002 are carried forward from 1994 Retail Margin Order. In 2007, prices reflect inflation adjusted prices from 1994 for finished farm products.

IV. EFFECTIVE DATE

This rule becomes effective August 1, 2014 and shall be used thereafter in preparing the Schedule of Minimum Prices issued by the Commission.

Tim Drake, Executive Director
Maine Milk Commission

STATUTORY AUTHORITY: 7 M.R.S.A. §2954

EFFECTIVE DATE:
December 12, 1990

REPEALED AND REPLACED:
December 4, 1994

ELECTRONIC CONVERSION:
May 4, 1996

NON-SUBSTANTIVE CORRECTIONS:
February 5, 1998 - minor spelling, formatting, conversion to MS Word.

REPEALED AND REPLACED:
January 31, 1999
October 18, 2002 - filing 2002-370 accepted September 24, 2002

REPEALED AND REPLACED:
February 22, 2008

REPEALED AND REPLACED:
June 19, 2014

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